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OFFICE OF GENERAL
COUNSEL

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COMMISSION

Re: MUR 7031 and MUR 7034

Dear Mr. Jordan,

The following response is submitted on behalf of Pursuing America's Greatness and its treasurer, Bryan Jeffrey, by the undersigned counsel in connection with Matter Under Review 7031 and Matter Under Review 7034. Pursuing America's Greatness was notified by the Commission of the Complaint in MUR 7031 by letter dated March 29, 2016, and of the Complaint in MUR 7034 by letter dated April 4, 2016. The two complaints focus on the same transactions, allege essentially the same violations, and we presume they will be consolidated. Accordingly, this response addresses both complaints.

For the reasons set forth below, Pursuing America's Greatness should either be dismissed from the proceedings, or, in the alternative, the Commission should find no reason to believe that Pursuing America's Greatness violated the Act.

I. Factual Background

Pursuing America's Greatness is an independent expenditure-only committee (IEOC) that is not subject to the contribution limits that apply to traditional political committees. *See SpeechNow.org v. FEC*, 599 F.3d 686 (D.C. Cir. 2010) (*en banc*); Advisory Opinion 2010-11 (Commonsense Ten).

Children of Israel, LLC, made two contributions to Pursuing America's Greatness: (1) \$50,000 on July 13, 2015; and (2) \$100,000 on November 13, 2015. Both contributions were reported to the Commission and appear on the public record.

Pursuing America's Greatness and its representatives do not know if Children of Israel, LLC, has one or more members, or whether it is completely disregarded or treated as a partnership or corporation for tax purposes.

At the time Pursuing America's Greatness accepted the two contributions mentioned above, the Commission had never suggested that an LLC could *not* make a contribution to an IEOC. To the contrary, the guidance that existed prior to April 2016 indicated that: (1) an LLC may lawfully contribute to an IEOC; and (2) an LLC is a distinct legal person. Logically, it followed that an LLC *could* contribute to an IEOC in the LLC's own name. As of April 1, 2016, however, the Commission has opined that an LLC's right or ability to contribute to an IEOC in its own name may be undercut by the statutory prohibition against contributing in the name of another, although the circumstances in which that may be the case remain unclear.

II. Legal Background

Neither the Act nor Commission regulations address contributions from LLCs to IEOCs. Under current law, a "person" may contribute without limit to an IEOC.¹ The Commission recently affirmed that:

An LLC is treated as a 'person' under the Act. 2 U.S.C. 431(11). As such, LLCs are subject to the Act's provisions regarding contributions and expenditures made by persons. 2 U.S.C. 431(8) and (9).

Advisory Opinion 2009-02 (True Patriot Network, LLC); *see also* Advisory Opinion 1995-11 (Hawthorne). At least three Commissioners acknowledge that "corporate LLCs are constitutionally entitled to make contributions to Super PACs." Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman in MURs 6485, 6487, 6488, 6711, and 6930 (April 1, 2016).

Commission regulations require political committees to disclose "[e]ach *person*, other than any political committee, who makes a contribution to the reporting political committee during the reporting period, whose contribution or contributions aggregate in excess of \$200 per calendar year ..., together with the date of receipt and amount of any such contributions" 11 C.F.R. § 104.3(a)(4). Taken together, *existing* law and regulations tell us that an IEOC may accept a contribution from an LLC, an LLC is a person, and IEOC's must report contributions received from all persons. Until April 1, 2016, the Commission had never addressed how, if at all, 52 U.S.C. § 30122 fit into this equation.

Commission attorneys recently took the position that an individual could establish an LLC for purposes of obtaining a federal government contract, and still make federal contributions individually. *See* Oral Argument Transcript at 38-39, *Wagner v. FEC*, No. 13-5162 (D.C. Cir. Sept. 30, 2014). Judge Tatel said to Commission counsel, "If I'm a contractor I

¹ It is not alleged that Children of Israel, LLC, is a foreign national or a federal government contractor.

can set up the David Tatel, LLC, and contract with AID through the David Tatel, LLC, and I can go ahead and make all the contributions I want in my name." Commission counsel responded, "Yes." *Id.* at 40; *see also id.* at 55 (Commission counsel confirms that "LLCs can contract with the government, and the individual from the LLC can make contributions"). Later at oral argument, Commission counsel stated that an individual and that individual's LLC are "a different person." *Id.* at 54. Thus, at least for purposes of defending the statutory federal contractor contribution ban, Commission counsel embraced single member, alter ego LLCs in an attempt to demonstrate that the contractor contribution prohibition is not especially onerous.²

The Commission has also embraced separate corporate personhood in the context of enforcing prohibitions against corporate contributions and expenditures. In past enforcement matters, for instance, the Commission upheld corporate personhood and declined to look beyond the corporate form when doing so would have meant attributing activity to an individual, and thereby rendering it legal. *See, e.g.,* MUR 4313 (Coalition for Good Government) (involving S Corporation established and funded by individual to sponsor advertising). The First General Counsel's Report in MUR 4313 explains:

It is stated in the Coalition [for Good Government, Inc.] response and in Mr. [Paul Tudor] Jones' sworn statement that the funds for the advertisement came from Mr. Jones' personal accounts. Rather than make the expenditures directly, however, he elected to establish a new organization called the Coalition for Good Government which registered as a Subchapter S Corporation, and to fund the advertisement through the Coalition. According to the response to the complaint filed on behalf of Mr. Jones and the Coalition,

[Mr. Jones] was advised that the Coalition would essentially be his 'alter ego', while at the same time the corporate form would provide limited liability for tort and contract purposes. . . . Mr. Jones was the only contributor to the Coalition for Good Government and maintained complete control over its actions. . . . He is identified by name in all public records of the Coalition, so there has been no attempt to hide his identity.

[***]

In the present matter, Mr. Jones put his personal funds into the account of the Coalition for Good Government, a corporation which he assertedly [sic] created for purposes of making the television spot at issue in this matter. These funds

² Commission counsel subsequently filed a letter with the Court to "clarify and correct certain information that has been presented to the Court regarding limited liability companies." FEC Letter to Clerk of the Court, November 24, 2014. Commission counsel acknowledged that "[o]ther than positions taken by counsel in the course of this litigation, the FEC has not addressed the application of FECA's contractor contribution prohibition to contributions made by an individual who is the sole member of an LLC that is a federal contractor." *Id.* It is unclear whether this "clarification" is a disavowal of the position presented at oral argument.

were then used for the production and placement of the advertisement. The exact amount provided by Mr. Jones is not known; however, the complaint states that it may have been "as much as \$1 million."

[***]

It has been the policy of the Commission that once a decision is made and carried out to conduct business using the corporate form, any funds taken from the corporation's accounts are to be deemed corporate in nature, whether or not they originated as, or could be converted into, the personal funds of a shareholder, and whether or not corporate income is taxable as personal income as a result of Subchapter S election. See, e.g., MUR 3191. In the present matter, when the Coalition was incorporated it took on a legal identity separate from that of Mr. Jones and was subject to regulation as such. The fact that Mr. Jones invested his personal property in the Coalition does not mean that its funds could still be viewed as his personal funds for purposes of the Act at the time the expenditures here at issue were made. Nor does the fact that he elected Subchapter S status for the Coalition change the corporate nature of the organization. Thus, given the Coalition's corporate status, and the fact that the funds for the television spot came from the Coalition's account, the expenditures made for the advertisement were made with corporate funds. See MUR 3119 and MUR 3191.

MUR 4313 (Coalition for Good Government, Inc.), First General Counsel's Report at 32-34 (emphasis added).

In short, the Commission has embraced separate LLC and corporate personhood when doing so protects statutory provisions from judicial challenge or allows the Commission to find violations in enforcement matters. This is apparently a one-way enforcement ratchet, however, as that position appears to enjoy less support in the present context.

II. The Complaint Against Pursuing America's Greatness Should Be Dismissed

A. The Complaint in MUR 7031 Does Not Allege Any Violation of the Act by Pursuing America's Greatness

The Complaint in MUR 7031 was filed by the Campaign Legal Center, Democracy 21, and Lawrence M. Noble. Notably, these professional Complainants did not name Pursuing America's Greatness as a respondent, nor does the Complaint allege any wrongdoing by Pursuing America's Greatness. Nevertheless, the Commission's notification letter to Pursuing America's Greatness claims, "The Federal Election Commission received a complaint that indicates Pursuing America's Greatness ... may have violated the Federal Election Campaign Act of 1971, as amended (the 'Act')."

Pursuing America's Greatness is mentioned only three times in the Complaint – in Paragraphs 2, 6, and 11. In each instance, the reference indicates only that Pursuing America's Greatness received contributions. There is no allegation anywhere in the Complaint that Pursuing America's Greatness violated any provision of the Act or Commission regulations.

The Complainants do not name Pursuing America's Greatness as a respondent, do not present a legal theory under which Pursuing America's Greatness may have violated the Act, and do not set forth sufficient facts which, if proven to be true, would constitute a violation of the Act by Pursuing America's Greatness. As a result, there is no basis on which to find reason to believe that Pursuing America's Greatness may have violated the Act.

Nevertheless, Commission staff appears to have determined that Pursuing America's Greatness *should be* a respondent in this matter, although the grounds for this are unexplained. Mr. Jordan's letter of March 29, 2016, indicates only that "[t]he Federal Election Commission received a complaint that indicates Pursuing America's Greatness ... may have violated the Federal Election Campaign Act of 1971, as amended (the 'Act')." Based on recently released enforcement documents, we presume that the Office of General Counsel will take the same position it took in MUR 6485 and assert that Pursuing America's Greatness is potentially liable for knowingly accepting a contribution made in the name of another, even though the Complainants do not seem to believe or even allege this to be the case. As the Office of General Counsel wrote in MUR 6485,

ROF [Restore Our Future] contends that because the Complaint did not name it as a respondent, this Office should not have designated ROF as such. Given our conclusion that there is reason to believe that W Spann and Conard violated 2 U.S.C. § 441f when making the contribution to ROF, ROF could in turn be liable for violating section 441f, which prohibits "knowingly accept[ing] a contribution made by one person in the name of another person." In light of ROF's potential liability under the Complaint, ROF was appropriately named as a respondent and provided notice of the Complaint and an opportunity to respond.

MUR 6485 (W Spann LLC), First General Counsel's Report at 14.

If the Office of General Counsel has developed other theories of liability as well, we are unaware of them. As noted above, until early April 2016, the Commission had not issued any guidance regarding LLC contributions to IEOCs. The Commission has still not issued any guidance regarding the affirmative obligations of IEOCs to scrutinize contributions from LLCs beyond the treasurer's normal due diligence. If there are still circumstances in which an LLC is a permissible source of contributions to an IEOC (and, following the Commissioners' April 2016 guidance, it appears there are), there exists no guidance explaining what an IEOC should do when it receives a contribution from an LLC, other than report it on Schedule A.

In addition, neither of the Statements of Reasons issued on April 1, 2016, suggest that the Commission's existing attribution rules apply to LLC contributions to IEOCs. IEOCs have reported contributions from LLCs since 2010 and we are not aware of the Commission issuing

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Id. at 11.

In light of the foregoing, we find it highly implausible that *any* IEOC, whether Restore Our Future in MUR 6485, or Pursuing America's Greatness in this matter, could have "knowingly accept[ed] a contribution made by one person in the name of another." 52 U.S.C. § 30122. The Commission has no standard for determining when a contribution from an LLC to an IEOC is an "illegal contribution[] in the name of another," and in the absence of a known legal standard, that standard cannot be knowingly violated. Given this legal landscape, the Office of General Counsel's *sua sponte* inclusion of additional parties not alleged to have committed any violation as named Respondents is improper.

The Complaint in MUR 7034, on the other hand, alleges that “Recipient Respondents accepted illegal contributions in the name of another,” and asserts that “[t]he Commission should investigate to determine if this acceptance was also knowing and willful.” Complaint, MUR 7034 at 3. In other words, the Complainants in MUR 7034 appear to have incorporated the Office of General Counsel’s legal theory in their complaint. Although a violation is alleged in MUR 7034, the supposed violation remains undefined by the Commission and there is no basis upon which the Commission could find reason to believe that Pursuing America’s Greatness violated 52 U.S.C. § 30122.

C. The Contributions Were Made Prior to the Issuance of the Commissioners' April 2016 Statements of Reasons

Five enforcement matters regarding LLC contributions to IEOCs were recently made public. See MUR 6485 (W Spann LLC), MURs 6487 and 6488 (F8, LLC), MUR 6711 (Specialty Investments Group, Inc.), and MUR 6930 (SPM Holdings LLC). In these matters, the Commissioners were evenly divided on how to proceed, and the two groups of Commissioners developed different legal standards. Neither standard was fully consistent with the Office of General Counsel's view of what the law required in each case. In short, the regulated community is in the same position as before: we do not know what the law requires; self-styled "reformers" who lobby for more and more regulation will continue to file complaints and lawsuits; and there is no legal standard that is supported by a majority of Commissioners or adopted by the Office of General Counsel to be applied to these situations. Or, as three Commissioners put it, there remains an "absence of any consensus regarding how to draw lines distinguishing lawful contributions versus unlawful contributions by ... corporate LLCs." Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman in MURs 6485, 6487, 6488, 6711, and 6930 at 9 n.50.

Three Commissioners supported making reason to believe findings in the above-referenced matters "because the current law clearly prohibits contributors from using the names of LLCs to shield their identity from disclosure to the public." Statement of Reasons of Vice Chairman Steven T. Walther and Commissioners Ann M. Ravel and Ellen L. Weintraub in MURs 6485, 6487, 6488, 6711, and 6930 (April 1, 2016) at 2.³ These Commissioners explained that "[a]n LLC cannot act on its own; it must do so at the direction of a person. Where an individual is the source of the funds for a contribution and the LLC merely conveys the funds at the direction of that person, the Act and Commission regulations require that the true source – the name of the individual rather than the name of the LLC – be disclosed as the contributor." *Id.* at 4.

Three other Commissioners disagreed that the Act and Commission regulations necessarily make this reading of the law clear, and noted that "the question of whether closely held corporations and corporate LLCs may be straw donors under section 30122 is one of first impression." Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman in MURs 6485, 6487, 6488, 6711, and 6930 (April 1, 2016) at 2. These Commissioners determined that a contribution made through an LLC *could be* a contribution made in the name of another under certain circumstances, but that this new application of a not-yet-defined rule would be applied prospectively. *Id.*

Whether and how the first two Statements of Reasons can be reconciled, or what an IEOC is actually supposed to do when confronted with this issue, is beside the point in the present matter. The parties involved in *this matter* were in the same position as the respondents in MURs 6485, 6487, 6488, 6711, and 6930 with respect to the relevant legal requirements: the

³ Commissioner Ravel and Commission Weintraub filed a second Statement of Reasons on April 13, 2016, that comments on the Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman.

Commission had not provided any guidance on LLC contributions to IEOCs at the time the contributions in this matter were made and reported. Thus, both Complaints should be dismissed for the reasons set forth in the Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman in MURs 6485, 6487, 6488, 6711, and 6930 (April 1, 2016).

For the same reasons, the more specific allegations set forth in MUR 7034, that Pursuing America's Greatness "accepted illegal contributions in the name of another" and may have done so "knowing[ly] and willful[ly]" must also be dismissed. As noted, at the time the two contributions were made, the Commission had not yet issued any guidance on the subject of LLC contributions to IEOCs. The competing Statements of Reasons still do not establish a legal standard for finding that an LLC contribution to an IEOC is a contribution made in the name of another. Given the many open and unanswered questions regarding the application of 52 U.S.C. § 30122 to LLC contributions to IEOCs, Pursuing America's Greatness could not possibly have "knowingly and willfully" accepted an impermissible contribution.

D. Obligations of Independent Expenditure-Only Committees Remain Unclear

None of the three Statements of Reasons addresses what an IEOC must do when it receives a contribution from an LLC. Instead, these Statements focus exclusively on whether the LLC's contribution was permissible in the first instance. The Office of General Counsel discussed the recipient IEOC's liability and obligations in its reports to the Commissioners, but none of the Office of General Counsel's reports garnered a majority vote.

In MUR 6485 (W Spann LLC), the Office of General Counsel explained that "[g]iven our conclusion that there is reason to believe that W Spann and Conard violated 2 U.S.C. § 441f when making the contribution to ROF [Restore Our Future], ROF could in turn be liable for violating section 441f, which prohibits 'knowingly accept[ing] a contribution made by one person in the name of another person.'" MUR 6485, First General Counsel's Report at 14. The Office of General Counsel recommended that the Commission find no reason to believe that Restore Our Future violated 2 U.S.C. § 441f by knowingly accepting a contribution in the name of another. *Id.* According to the Office of General Counsel:

The Complaint and Commission records show that ROF accepted a contribution from W Spann that was later attributed to Conard. But there is no information to suggest that, when ROF received the contribution on April 28, 2011, it was aware that Conard had made the contribution through the use of an intermediary, and thus, in the name of another.

Id.

The Office of General Counsel also explained:

Once ROF became aware of evidence suggesting that the contribution from W Spann may have been funded and directed by another person, ROF was required

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to remedy its receipt of such funds by refunding them to the true contributor within 30 days of that discovery, in this case Conrad. 11 C.F.R. § 103.3(b)(2). Within ten days of Conrad announcing he was the source of the contribution, ROF amended its reports to reflect that the contribution was made by Conrad, not W Spann, at Conrad's request. By amending its reports to reflect that Conrad was the true source of the contribution, ROF effectively remedied the violation. Under the rather novel and unique circumstances presented here, we conclude there is nothing to be gained by obligating ROF to refund the contribution to Conrad, who already instructed ROF to reflect his status as the actual contributor, particularly given the fact that Conrad is lawfully entitled to contribute the funds to ROF in his own name, unlike in the typical 441f violation scenario. Consequently, we do not recommend that the Commission instruct ROF to take any further action with regard to 11 C.F.R. § 103.3(b)(2).

Id. at 16 n.8.

Similarly, in MURs 6487/6488 (F8 LLC/Eli Publishing. L.C.), the Office of General Counsel explained:

Depending on the result of further investigation into the questioned contributions, ROF could be liable for violating 2 U.S.C. § 441f, which prohibits knowingly accepting a contribution made in the name of another. Also, should a treasurer discover after receipt of an apparently legitimate contribution that it was made in the name of another, the treasurer must disgorge the contribution within 30 days. 11 C.F.R. § 103.3(b)(2); *see* MUR 5643 (Carter's Inc.) (informing recipient committee of its obligation to refund or disgorge illegal contribution); AO 1996-05 (Jay Kim for Congress) (allowing for disgorgement of illegal contributions to U.S. Treasury as an alternative to refunding contributions). Although the Complaints do not allege that ROF violated section 441f, ROF may subsequently be required to refund or disgorge the contributions of Eli Publishing and F8. Accordingly, we recommend that the Commission take no action at this time with respect to ROF. If we obtain information bearing on the question of ROF's liability under section 441f or its obligations to disgorge during the investigation, we will make appropriate further recommendations at that time.

MURs 6487/6488 (F8 LLC/Eli Publishing. L.C.), First General Counsel's Report at 15-16.

Perhaps these proposals will be supported by a majority vote of the Commission in a future case in which four or more Commissioners determine that an LLC violated Section 30122, or in a rulemaking or advisory opinion. Until such time as a majority of the Commission issues such guidance, however, the procedures and conclusions of the Office of General Counsel are not the law and have no binding effect.

E. Permissible Remedies

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The Office of General Counsel's conclusion in the above-referenced matters that Restore Our Future (or another similarly situated IEEO) was potentially required to refund the contribution at issue pursuant to 11 C.F.R. § 103.3(b)(2) is mistaken. The cited regulation was last modified long before *SpeechNow.org v. FEC* at a time when one could correctly presume that any of the contributions contemplated in Section 103.3(b)(2) were necessarily contributions that could not be accepted by the committee under any circumstances. Prior to 2010, contributions to federal committees from corporations, labor unions, foreign nationals, and federal contractors were *always* impermissible, and contributions made in the name of another (almost) *always* involved violations of either the contribution source prohibitions of Sections 441b, 441c, or 441e, or the contribution amount limitations of Section 441a. MUR 5643, which the Office of General Counsel cites in support of its reading of Section 103.3(b)(2), involved corporate reimbursement of individual contributions, meaning the recipient committee was instructed to refund or disgorge impermissible corporate contributions, as opposed to permissible contributions that were simply misattributed or misreported. Advisory Opinion 1996-05, also cited, involved a situation in which a campaign committee accepted individual contributions that were reimbursed with corporate funds. The underlying rationale for requiring disgorgement of a contribution made in the name of another has always been because the underlying contribution was itself illegal – that is, the underlying contribution was either from an impermissible source or exceeded the true contributor's amount limitation.

In MUR 6485, however, the contribution at issue was legal and the only issue was its attribution on a disclosure report. Despite contending that the regulations require a refund, the Office of General Counsel conceded that:

By amending its reports to reflect that Conard was the true source of the contribution, ROF effectively remedied the violation. Under the rather novel and unique circumstances presented here, we conclude there is nothing to be gained by obligating ROF to refund the contribution to Conard, who already instructed ROF to reflect his status as the actual contributor, particularly given the fact that Conard is lawfully entitled to contribute the funds to ROF in his own name, *unlike in the typical 441f violation scenario*.

MUR 6485, First General Counsel's Report at 18 n.8 (emphasis added).

We agree with the Office of General Counsel that if a contribution from an LLC to an IEEO is found to violate 52 U.S.C. § 30122, then the appropriate remedy with respect to the IEEO is simply to amend the contributor name on the relevant report. As the Office of General Counsel explained, "there is nothing to be gained by obligating [the IEEO] to refund the contribution." In the case of an IEEO, a refunded contribution could be immediately re-contributed by the person deemed to be the "true source." Amending the relevant public disclosure report achieves exactly the same outcome and avoids a questionable repurposing of a much older regulation that was never intended to apply in the present context.

III. Conclusion

As three Commissioners explained, the appropriate resolution to a complaint pertaining to an LLC contribution made to an IEOC prior to April 1, 2016, is to dismiss the matter "in light of recent legal developments, principles of due process, fair notice, and First Amendment clarity." Statement of Reasons of Chairman Matthew S. Petersen and Commissioners Caroline C. Hunter and Lee E. Goodman in MURs 6485, 6487, 6488, 6711, and 6930 at 2. The two contributions made by Children of Israel, LLC, to Pursuing America's Greatness were made in 2015 and fit this description.

Beginning in April 2016, IEOCs must grapple with the two competing Statements of Reasons when determining whether and how to accept a particular contribution from an LLC. But, with respect to any LLC contribution accepted prior to early April 2016, the result of the Commission's consideration should be consistent with MURs 6485, 6487, 6488, 6711, and 6930.

Please feel free to contact us if you have any questions or require any additional information.

Sincerely,



Michael Bayes

Counsel to Pursuing America's Greatness